AG810-1

National Association of Purchasing Management

Report On Business®

November 1, 1989
Volume 7, Number 11

Purchasing Managers' Index Rises To 47.6%

Price Index Falls To Lowest Since December '82

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

October Report

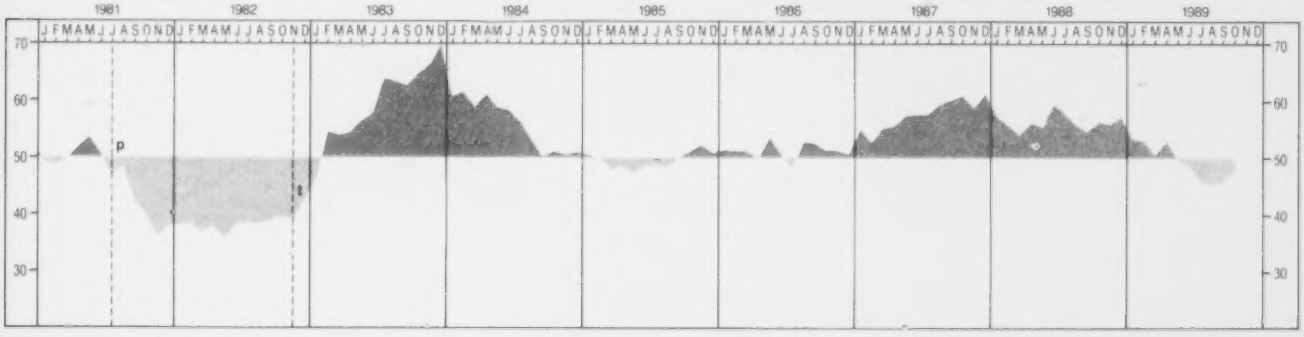
The economy declined in October for the sixth consecutive month, but at a lesser rate for the second consecutive month, say the nation's purchasing executives in their latest ***Report On Business.*** The **Production** declined for the fourth consecutive month at about the same pace as last month. **New Orders** grew in October after four consecutive months of decline. **Inventories** declined for the tenth consecutive month. **Employment** declined for the ninth consecutive month, at about the same rate as last month's decline.

New Export Orders continued to exhibit relatively strong growth, although the rate of growth was down sharply from September. Of the 73% of members exporting, 19% reported better Export Orders, down from 27% in September. The 8% reporting worse Export Orders is up from the 6% reported last month. The seasonally unadjusted index fell to 55.5% from 60.5% in September. In answer to a new question to the 73% of members who said they import, 10% indicated their overall **Imports** were higher and 12% reported lower than September. This resulted in a seasonally unadjusted index of 49.0% and suggests that Imports have registered a slight decline among manufacturers.

Prices declined for the fifth consecutive month at an even faster rate than in September. A total of 18 items was reported lower priced and only 11 higher priced. **Vendor Deliveries** were faster for the sixth consecutive month and the Vendor Deliveries index fell to 42.7%.

The **Report** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The manufacturing economy entered the final quarter of 1989 with the sixth consecutive monthly decline. Continued declines in Vendor Deliveries and Price indexes indicate the supply is considerably greater than demand. However, the sharp turnaround in New Orders growth, after four months of decline, hints of a possible continued easing in the overall future rate of decline in the manufacturing economy."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index (PMI)

October	56.2	May '89	49.7
November	55.9	June '89	48.8
December	57.3	July '89	46.0
January '89	53.2	August '89	45.2
February '89	53.0	September '89	46.0
March '89	50.4	October '89	47.6
April '89	53.0		

The **Purchasing Managers' Index** (PMI) rose in October to 47.6%, up from 46.0% in September. This is the sixth consecutive month of decline in the manufacturing economy. However, it is the second consecutive month in which the rate of decline was less than the previous month. A reading below 50 indicates that the manufacturing economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI has averaged 49.3% for the first 10 months of 1989. Past experience indicates that if this average were to continue for the final two months, it would be consistent with real GNP growth of about 1.7% for all of 1989, unchanged from last month. The 1.7% does not include the additional .6% in this year's GNP, reflecting the rebound in farm production output from last year's drought. The PMI would have to fall below 44% before indicating a decline in real GNP."

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

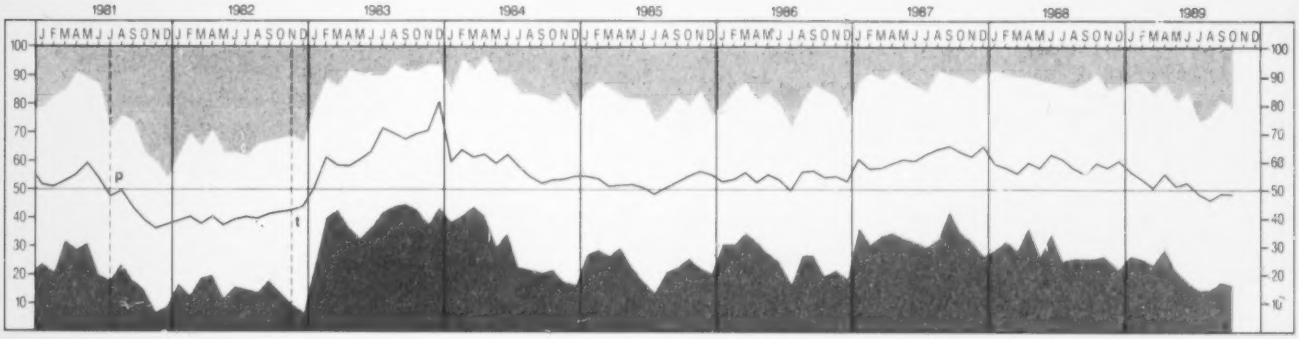
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("P" — July 1981) and trough ("T" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

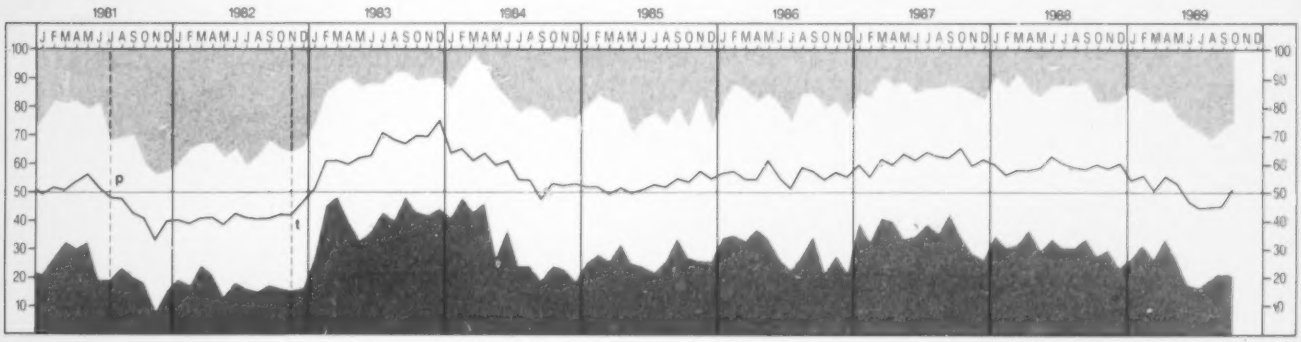
PRODUCTION



Production declined in October for the fourth consecutive month. The good news is that the rate of decline was only slightly more than in September. The Production index slipped to 48.4%, down almost imperceptibly from 48.5% in September. Other than some minor production declines, mainly in the apparel and textile industry, Hurricane Hugo appeared to have little overall impact on production.

Production	%Better	%Same	%Worse	Net	Index
October	17	62	21	– 4	48.4
September	18	64	18	0	48.5
August	15	61	24	– 9	46.5
July	15	59	26	–11	48.3

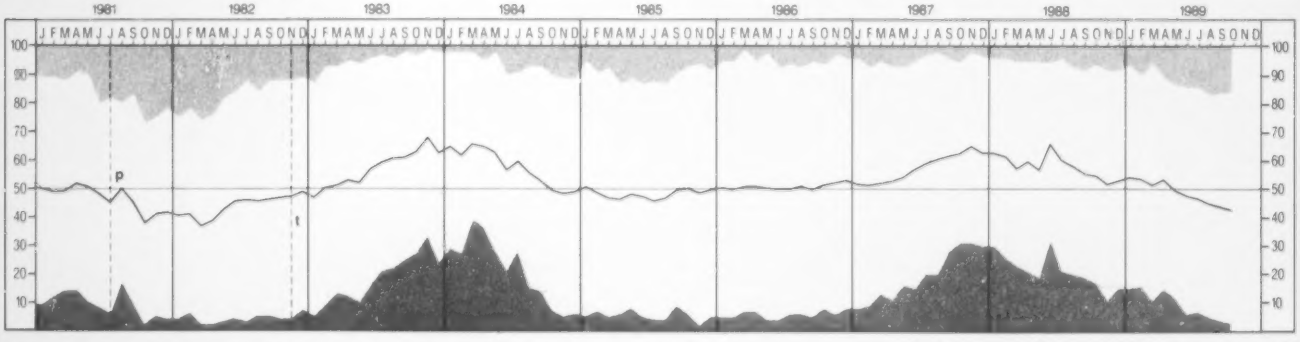
NEW ORDERS



New Orders grew in October, reversing a down trend of four consecutive months of decline. The New Order index rose to 51.4%, sharply higher than 45.4% in September. It appears that the growth in New Orders was aided by continued relatively strong growth in New Export Orders and perhaps by a slight decline in overall imports.

New Orders	%Better	%Same	%Worse	Net	Index
October	21	54	25	– 4	51.4
September	23	50	27	– 4	45.4
August	20	49	31	–11	45.1
July	17	55	28	–11	44.8

VENDOR DELIVERIES



Vendor Deliveries were faster in October for the sixth consecutive month, reflecting greater availability and continued decline in demand in the sluggish economy. The Vendor Deliveries index fell for the sixth consecutive month and, at 42.7%, is the lowest since May 1982 (42.1%). However, the number of items in short supply increased to 12, up from eight last month.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
October	3	81	16	–13	42.7
September	4	80	16	–12	43.8
August	5	78	17	–12	44.9
July	7	79	14	– 7	46.9

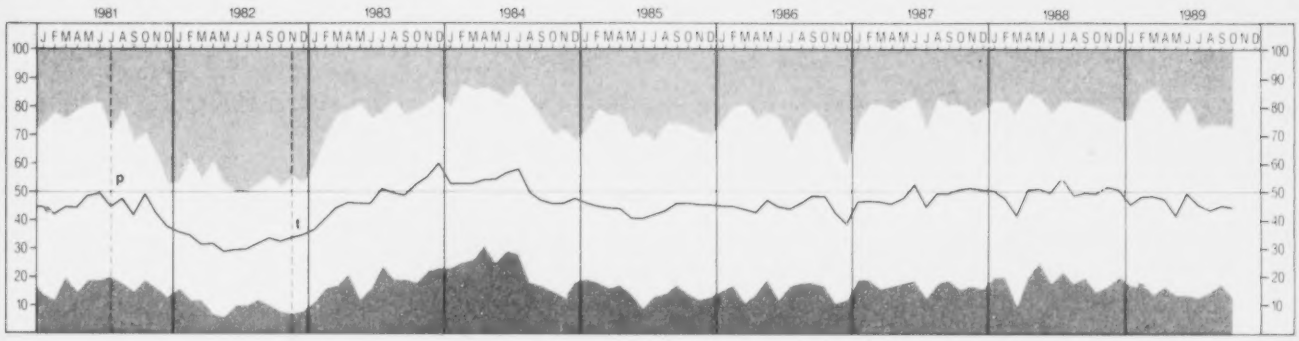
IN SHORT SUPPLY:

Bearings (15th consecutive month; a consequence of anti-dumping suits), **Castings** (11th time in 14 months), **Bleached Paperboard** (16th consecutive month, but reported off allocation), **Acetone** (a solvent for fats, oils, waxes, resins, rubber, plastics, lacquer, and varnishes) **Acrylic Acid** (15th time in 16 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (29th consecutive month; used heavily in paper-making, petroleum refining, and soap-making), **Sodium Chlorate** (5th consecutive month; used heavily in paper-making and dyeing), **Tetrahydrofuran (THF)** (heavily used as a solvent for high polymers especially polyvinyl chloride), **Titanium Dioxide** (27th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper, and other industrial applications), **Polyester, Rayon, Milk/Milk Powder** (2nd consecutive month; a consequence of increased demand for dairy products, exceptionally higher government exports of nonfat dry milk, and very low import quota of nonfat dry milk; used in food processing).

UP IN PRICE:

Copper (2nd consecutive month; after being reported down in price in August for 3rd consecutive month; a consequence of mining strikes in Mexico and Peru), **Lead** (2nd consecutive month, after being reported down in price in April; used heavily in making paints, petroleum, pipe, and batteries), **Bearings** (15th time in 16 months), **Electric Motors** (3rd time in 4 months; industry is capacity restrained), **Acetone** (a solvent for fats, oils, waxes, resins, rubber, plastic lacquer, and varnishes), **Benzine** (After being reported down in price in August for 3rd consecutive month, used heavily in making medicinal chemicals, dyes, varnishes, lacquers, and resins), **Caustic Soda/Soda Ash** (35th consecutive month; used heavily in paper-making, petroleum refining, and soap-making), **Titanium Dioxide** (4th time in 7 months; a lead-free pigment used as a whitener in coatings, paints, paper,

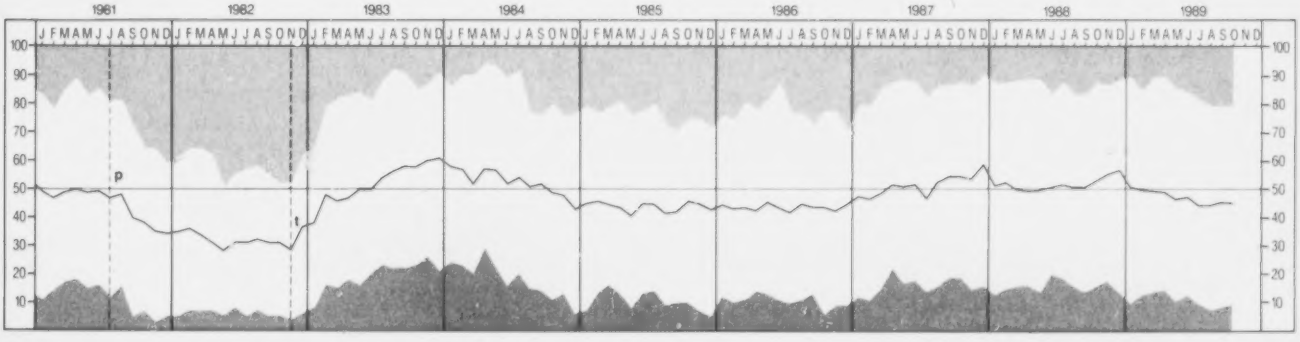
INVENTORIES



Inventories declined in October for the 10th consecutive month at a slightly greater pace than in September. The Inventories index dropped to 44.7%, down from 45.1% last month. Purchasers continue to report progress in balancing their inventories of purchased items in line with production demands.

Inventories	%Higher	%Same	%Lower	Net	Index
October	13	60	27	−14	44.7
September	18	56	26	− 8	45.1
August	15	59	26	−11	43.3
July	13	60	27	−14	45.5

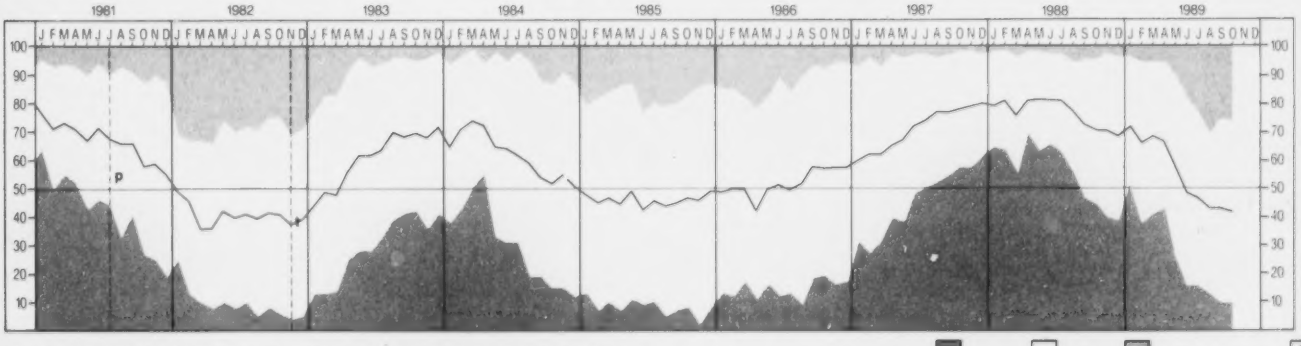
EMPLOYMENT



Employment declined in October for the ninth consecutive month at about the same rate as in September. The Employment index fell slightly to 45.8%, barely lower than 45.9% last month.

Employment	%Higher	%Same	%Lower	Net	Index
October	10	70	20	−10	45.8
September	9	71	20	−11	45.9
August	8	72	20	−12	44.7
July	10	72	18	− 8	44.4

COMMODITY PRICES



Prices declined in October for the fifth consecutive month. The rate of decline was greater in October than last month. The Price index fell to 41.9%, down from 43.1% in September, and the lowest since December 1982 (39.1%), which was the first month after our current economic recovery began.

Prices	%Higher	%Same	%Lower	Net	Index
October	10	64	26	−16	41.9
September	10	65	25	−15	43.1
August	13	57	30	−17	43.1
July	16	61	23	− 7	46.9

and other industrial applications), **Fuel Oil** (After being reported down in price in July and September), **Natural Gas** (After being reported down in price in September for 3rd consecutive month), **Milk/Milk Powder** (A consequence of increased demand for dairy products, exceptionally higher government exports of nonfat dry milk, and very low import quotas of nonfat dry milk).

DOWN IN PRICE:

Aluminum (7th consecutive month), **Nickel** (5th consecutive month; used heavily in making stainless steel, plating metals, and batteries), **Steel** (2nd consecutive month; after being reported up in price in May for 33rd time in 34 months), **Zinc** (5th time in 6 months; used heavily in metal alloys and as a protective coating for metal), **Chlorine** (2nd time in 7 months; used heavily in bleaching paper and fabrics, purifying water; and in making synthetic rubber, plastics, and other chemicals), **Ethylene** (6th consecutive month; used heavily in making ethylene oxide, plastic resins, and glycols), **Formaldehyde** (2nd time in 5 months; used heavily in making phenolic resins; and, in fungicides, disinfectants, and other chemical preparations), **Methanol** (9th time in 10 months; used heavily as a solvent and in synthesizing other chemicals), **Phenol** (3rd time in 5 months; used heavily in making phenolic resins), **Sulfur** (3rd consecutive month, used heavily in making matches, gunpowder, sulfuric acid, plastics, enamels, and bleaching woodpulp), **Plastic Resins** (3rd consecutive month; after being reported up in price in April for 20th time in 21 months), **Polyethylene Resin** (7th consecutive month; used heavily in making packaging materials and paper coatings), **Styrene** (6th consecutive month; used chiefly in making synthetic rubber, plastic resins, and plastic), **Polyvinyl Chloride (PVC)** (4th consecutive month; a rubber substitute in wire and cable coating, pipe, tubing, textile finishes, and belting), **Polypropylene** (7th time in 9 months; used in making fabrics, carpets, and yarns), **DRAMS** (3rd time in 6 months; dynamic electronic memory devices used heavily in computers), **Corn/Corn Starch** (used heavily in food processing, and in making paper), **Coffee**.

BUYING POLICY

Lead times for Production Materials remained virtually unchanged in October from September and August. The number of members reporting lead times of 30 days or less increased to 55%, up slightly from 54% in September and the same as in August.

Lead times for Capital Expenditures were somewhat shorter in October. The number of purchasers reporting lead times in the significant 6 months and longer category was 52%, down slightly from 54% in September, but the same as July and August.

Lead times for Maintenance, Repair and Operating (MRO) Supplies also shortened. The number of members reporting buying 30 days or less increased to 89%, up from the 86% reported last month, and from the 84% reported in August, which was the most since October 1986 (also 89%).

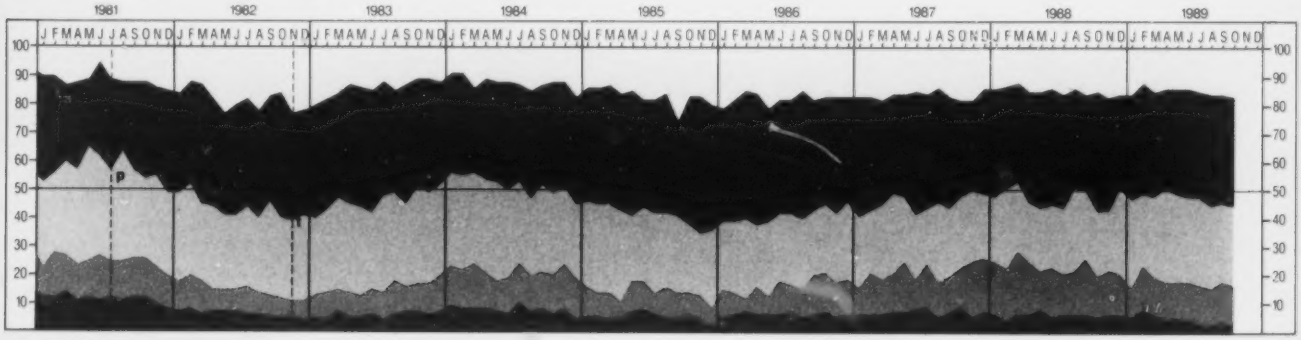
Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
October	17	38	28	14	3
September	16	38	28	14	4
August	16	39	29	13	3
July	15	37	31	14	3

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
October	12	7	14	15	52
September	10	7	13	16	54
August	12	6	12	18	52
July	12	5	13	18	52

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
October	42	47	10	1	0
September	44	42	11	2	1
August	48	36	13	1	2
July	44	42	11	3	0

PRODUCTION MATERIALS



Commodity Reports
October 1989

PAPER PRODUCTS — Prepared by the NAPM Paper Committee. Chair: Richard D. Mustari, C.P.M., UARCO Incorporated, Barrington, IL.

NEWSPRINT: Readily available. Higher seasonal demand in the fourth quarter, but current open capacity and three new machines coming on-line this year will keep pricing depressed for the foreseeable future.

UNCOATED GROUNDWOOD: Demand is fairly strong with adequate availability. Overseas imports are down. Pricing will remain weak because of open capacity and availability of alternate grades of newsprint and coated groundwood.

COATED GROUNDWOOD: Shipments are down for the year, although recent months are showing an increase due to high seasonal catalog demand. Price decreases have abated and should be stable for a few months. Readily available.

UNCOATED FREESHEET: Readily available. Prices down, but stable. Discounting has abated. Excess inventories have been worked off. Mills are seeing seasonal pickup in demand. Expect good availability and reasonable pricing for the next two years.

COATED FREESHEET: Orders and backlogs are up due to the strong catalog season. Availability is and will be tight temporarily. Pricing has not changed recently. Pricing will likely decline in 1990.

PAPERBOARD/LINERBOARD: Paperboard is still in tight supply, particularly SBS. Prices are rising. Linerboard demand is up slightly. Inventories and pricing are level.

PACKAGING — Prepared by the NAPM Packaging Committee. Chair: Carl Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, WI.

Packaging is definitely returning to a buyer's market. Significant decreases are reported in corrugated and items made from plastic resin. The one exception is folding cartons where higher prices and long lead times are being reported.

METAL CANS: All members report stable pricing and adequate supplies of metal cans except for one member who reports a price increase due to the increased cost of tin plate.

FIBRE CANS: This is a very stable market. Only one member reports increasing prices, and there continues to be an adequate supply.

GLASS: The tightness in this market seems to have pretty well disappeared. Supplies are adequate and prices are stable, although one member reports an increase.

MOLDED PLASTICS: It is difficult to keep up with the price reductions on most of the commodity resins. As a result, prices of molded products are being reduced significantly. The tightness in supply has also disappeared and as a result deliveries are improving.

FILMS: Again, prices are decreasing significantly due to the decrease in resin prices. This has also resulted in better availability.

LAMINATED STOCK: This item has also benefitted from reduced resin prices, although certain structures have increased in price due to the cost of certain components.

METAL DRUMS: There always seems to be an adequate supply of metal drums. However, a few members report price increases due to the increased cost of steel.

FIBRE DRUMS: Fibre drums continue to be available in adequate quantities. Some members report decreases due to the decreases in the cost of linerboard.

FOLDING CARTONS: Folding cartons are unique — for many years there was an oversupply and decreasing prices. However, for the last year we have seen increasing prices and limited availability. This continues to be the situation for this report.

CORRUGATED: This is another item that has seen a significant turnaround from increasing prices and tight supply to a situation where we now have adequate supply and decreasing prices. Prices should hold for the rest of the year.

BAGS: Bag prices are also benefitting from the reduced cost of plastic resins and paper. Prices are stable to decreasing and supply is adequate.

This *REPORT ON BUSINESS* is published monthly by the National Association of Purchasing Management, Inc., 2055 East Centennial Circle, Post Office Box 22160, Tempe, Arizona 85285-2160. Telephone: 602/752-NAPM (752-6276). Telecopier: 602/752-7890. NAPM is the largest purchasing education and research organization in the United States, with close to 30,000 members. The REPORT has been issued by the Association each month since 1931, except for a brief hiatus during World War II. It is distributed 12 times a year to NAPM members. Additional subscriptions are $50 a year for members, $100 for nonmembers. Add $25 outside the United States, Canada and Mexico.

Note: The next issue of *REPORT ON BUSINESS* will be available December 1, 1989.